



Comptroller of the Currency
Administrator of National Banks

US Department of the Treasury

ENSURING A SAFE AND SOUND
NATIONAL BANKING SYSTEM
FOR ALL AMERICANS

Validation of Credit Rating and Scoring Models

A Workshop for Managers and Practitioners

February 2-3, 2006

The Omni Shoreham Hotel, Washington, DC

The use by banks of credit risk rating and scoring models for underwriting, managing, and pricing has grown tremendously in the last several years. Under the proposed Basel II capital reforms, these models will only grow in significance, as they play a major role in the advanced internal ratings-based (AIRB) approach to regulatory capital.

Accompanying the growth in credit risk model use has been a potential for an increase in “model risk,” the risk for damage to profitability or reputation arising from the reliance upon erroneous model results or the overly broad application of a model to areas beyond its intended design.

Fortunately, model risk can be considerably reduced. Sound model building practices include rigorous procedures for model validation. Model validation not only increases the reliability of a model, but also promotes improvements and a clearer understanding of a model’s strengths and weaknesses.

In this workshop, senior OCC model risk experts delineate principles and policies that guide effective validation procedures. The sessions include some specific examples of the developmental evidence, benchmarking and outcomes-based analyses that characterize a comprehensive validation plan.

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Thursday, February 2

10:00am-1:00pm **On-Site Registration**

1:00 **Workshop Opens**

1:00-1:30 **Model Validation as a Process**

*Jeffrey Brown, Senior Deputy Comptroller
OCC International and Economic Affairs*

This session offers an introduction to validation as a process comprising developmental evidence, ongoing monitoring, outcomes analysis and independent review activities.

1:30-3:00 **Building and Evaluating Credit Rating and Scoring Models**

*Dennis Glennon, Deputy Director for Credit Risk Modeling
OCC Risk Analysis Division*

Sample design methods, estimation techniques, model selection tools and performance metrics commonly used in credit risk model development are compared and discussed.

3:00-3:15 **Break**

3:15-4:15 **Accuracy and Reliability of Models**

*Erik Larson, Lead Expert for Enterprise Risk
OCC Risk Analysis Division*

Increasingly, credit models are being relied upon to produce accurate forecasts of individual loan performance. This presentation considers sample design, estimation technique and model assessment when accuracy and goodness-of-fit are modeling objectives.

4:15-4:30 **Break**

4:30-5:15 **Examples of Model Design and Quantification**

*Mitch Stengel, Lead Expert for Basel II
OCC Modeling and Analysis*

Consumer and wholesale examples are used to illustrate the application of alternative metrics to assess and validate the design and quantification of rating and scoring systems at the time of development.

5:15-6:00 **Audience Discussion**

6:30-8:00 **Reception**

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A workshop sponsored by the Office of the Comptroller of the Currency

Friday, February 3

7:15am

Breakfast

8:15-9:00

Process Verification and Data Maintenance

*Michael Carhill, Director
OCC Risk Analysis Division*

Auditing and testing of model code, data integrity checking and other data maintenance activities all are important activities in validating credit rating and scoring models.

9:00-9:15

Break

9:15-10:15

Benchmarking and Tracking of Outcomes

*Nazmul Hasan, Lead Expert for Credit Risk Modeling
OCC Risk Analysis Division*

This session introduces methods for performance tracking credit rating and scoring models through benchmarking to alternative models and the analysis of realized outcomes. Examples illustrating vintage analysis, early read analysis and champion-challenger tools will be presented.

10:15-10:30

Break

10:30-12:00pm

Industry Panel and Audience Discussion

12:15-1:30

Lunch and Speech by Comptroller Dugan

1:45-3:00

Validation as a Control Function Under Basel II

*Mark Levonian, Deputy Comptroller
OCC Modeling and Analysis*

The validation activities of developmental evidence compilation and review, ongoing monitoring and outcomes analysis constitute some of the primary controls that institutions must implement to ensure that rating, segmentation and quantification systems bring integrity to the internal rating-based framework for regulatory capital.

3:00pm

Workshop Ends

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ATTENDEE INFORMATION:

Name: _____ Title: _____ Organization: _____

Address: _____ City: _____ State: _____ Country: _____ Zip: _____

Telephone: _____ Fax: _____ Email: _____

FEES (excluding lodging and transportation)

Early Registration before December 15, 2005: \$400 ☐

Registration on or after December 15, 2005: \$600 ☐

After December 15, 2005 a cancelation fee of \$75 applies.

PAYMENT:

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REGISTRATION:

By Phone: 202-874-4583

By Fax: 202-874-5394

By Email to: CRSM_Registration@occ.treas.gov

Due to security related delays in US Postal Service delivery to federal offices, registration by phone, fax, or email is preferred. If using a private delivery service the street address is: VCRSM Workshop, Comptroller of the Currency, Attn. Phyllis Savoy (MS 2-1), 250 E Street, SW, Washington, DC 20219

Please Indicate

I ☐ will ☐ will not attend the reception on February 2, 2006

I ☐ will ☐ will not attend the luncheon on February 3, 2006

I ☐ will ☐ will not be staying at the Omni Shoreham Hotel.

Special Needs:

If you wish to register for this conference and you have an accommodation request or special need (physical limitations, dietary restrictions, etc), please contact the Workshop Registrar at the above address.

HOTEL RESERVATIONS:

The workshop will be held at The Omni Shoreham Hotel, 2500 Calvert St, NW, Washington DC 20008.

Reservations may be made online at https://resweb.passkey.com/Resweb.do?mode=welcome_ei_new&eventID=24975, or by calling 1-888-444-6664. To obtain the special lodging rate of \$153 per night (plus tax) reservations must be made by December 23, 2005.